London Luton Airport Limited
Annual report and financial statements
for the year ended 31 March 2021

Registered in England & Wales No.: 2020381

Registered number: 2020381

London Luton Airport Limited

Contents

London Luton Airport Limited

Strategic Report
for the year ended 31 March 2021

The directors present their strategic report on the company for the year ended 31 March 2021.

Principal activities

The company's principal activities until August 1998 were the ownership, operation and management of London Luton Airport. In August 1998 the company granted a concession contract to an unrelated company, London Luton Airport Operations Limited ("LLAOL") to operate the airport on its behalf in return for a concession fee. The company continues to own the land, buildings and infrastructure at the airport.

Review of the business

London Luton Airport Limited (LLAL)'s principal source of income continued to be the Concession Fee which is based on work-load units, each unit being one passenger or 100kg of freight. Growth in passenger numbers was particularly strong, reaching a number of 17.2 million in the year to March 2020, an increase of some 1.59% over the previous year. However, the impact of the Covid-19 pandemic on passenger numbers, which was felt only slightly during March 2020, was significant throughout the remainder of the year, such that, for the year ending 31st March 2021, total actual passenger numbers was 2.9m, a reduction of some 83% on the previous year.

During the year LLAOL continued with the development works to increase the passenger capacity up to 18 million passengers per annum.

Three key events are noted during the year that impact the financial statements for the period to 31 March 2021.

1. Special Force Majeure
2. Impairment of DART
3. Valuation of the Airport

<u>Special Force Majeure</u>

A consequence of the Covid-19 pandemic resulted in the activation of a Special Force Majeure provision as specified within the Concession Agreement.

This provision provided for compensation to be paid to the airport operator as a result of circumstances that were beyond its control.

Subsequently, on 19th November 2021, both parties agreed a full and final settlement which resulted in the following primary financial outcomes:

1. A total Force Majeure settlement of £45m payable by LLAL to the airport operator, with phased amounts payable in the current and following 2 years.

2. A variable payment termed 'Passenger Access Mechanism' (PAM). This passenger access mechanism payment to/ from the airport operator will 'trigger' when there is a difference in the total actual and target passengers travelling during the year.

   Both parties have agreed rates per passengers payable/receivable if the passenger target is/is not achieved i.e. calculated as (actual PAX minus base target PAX) * agreed rate per passenger).

   This PAM will terminate on 31 March 2026.

DART Impairment

The DART (Direct-Air-Rail-Transit) mass passenger transport system connects Luton Parkway station to Luton Airport terminal. This new transport system remains as an 'asset under construction' until September 2022 when it is expected to become operational and ready for use.

During the year, we carried out an impairment assessment to determine the recoverable value of the DART.

This impairment assessment involved taking into consideration the capital cost incurred to date, the additional costs anticipated to be incurred to bring the service in to operation and projected future revenues. This assessment was carried out in accordance with UK Accounting standards (FRS102).

The assessment determined a £184.7m impairment of the DART during 2020/21.

Airport valuation

During the year we carried out a review of the valuation of the airport asset and determined a revised valuation based upon the reversionary value of the airport when the current concession agreement ends on 31 March 2031. This valuation was carried out with our Valuation Advisors at Deloitte LLP (Real Estate). The valuation was based on key financial and operational assumptions and inputs as provided by LLAL.

This valuation of the airport is revised and continues to be reported as an investment property in our accounts to 31 March 2021. The revised valuation as at 31 March 2021 is £1.49bn. We have restated the 2019/20 prior year values to be £1.41bn.

It is the view of the directors this represents a true and fair view of the value of the airport.

Principal risks and uncertainties

- The key business risks and uncertainties for the company are considered to relate to fluctuations in passenger throughput, the key determinant of the concession income. Passenger numbers are subject to competition between airlines, airport operators, the selection of routes and destinations, and underlying passenger demand for air travel which can be influenced by the general economic environment and consumer confidence. There is a risk that the decision to leave the European Union may diminish passenger demand for leisure related air travel. The concessionaire is deemed to be in the best position to manage this risk by its contractual relationships with airline operators.

- Assessments have been undertaken of the potential and likely impacts of the UK's decision to leave the European Union; indications are that the company's business plans remain deliverable, and no material change is expected in the company's prospects.

- The Covid-19 pandemic introduced an unprecedented risk into the company's activities and one which rapidly materialised in respect of passenger numbers, which were significantly reduced by measures introduced by HM Government to restrict air travel as part of its objective of controlling the spread of the virus.

- The company continues to pursue its application of a Development Consent Order (DCO) which is expected to be submitted at the end of 2022. A successful application will permit the expansion of the current terminal building and the development of a second terminal to enable the expansion of the airport to 32m passengers per annum in the future. This project is deemed to be and constitutes as a Nationally Significant Infrastructure Project (NSIP).

- Given the nature and complexity of this planning application, it is expected LLAL will incur an estimated £65m of costs pursuant to a successful application. We have evaluated the fair value of these costs through the expected future growth in the airport and have concluded that the fair value will be at least the level of costs to be incurred in this application.

- In April 2022 the Secretary of State for Levelling Up, Housing and Communities called-in the airport operator's planning application for increasing airport expansion to 19m passengers per annum, which had been approved by Luton Borough Council in December 2021.

  The process for consideration of this application is independent of the process by which LLAL's planned application for development consent will be considered.

  Although the two applications relate to the same site and both seek to increase the airport's passenger throughput, they are being processed under different statutory consenting regimes due to their very different scales.

  The processes for consideration of the two applications should proceed independently of one another. The airport operator's planning application is scheduled to go to Public Inquiry starting in September 2022.

  The re-call notification is reflected as a subsequent event after the 31 March 2021 balance sheet and is included in note 26 in the financial statements below.

Review of business and future developments

In response to the impact of the Covid-19 pandemic, the company took immediate action to negotiate a stabilisation plan with its shareholder, which enabled the company to maintain itself as a going concern. This included an additional £60m to support and stabilise the company during the 2020/21 financial year.

In July 2021, LLAL secured additional funding from its shareholder, Luton Borough Council (LBC), for a further £139m to ensure continuation of its capital investment program and working capital requirements. LLAL has stress tested various scenarios of business recovery over the next 18 months and, in stress testing its cash flows, has taken account of other supporting funding mechanisms potentially available through LBC. The directors are confident that approved additional funding is sufficient to ensure LLAL continues as a going concern. However, the company continues to be impacted by the Covid-19 pandemic. In particular, the outlook for international travel remains uncertain, notwithstanding recent positive developments in passenger numbers, and under certain severe but plausible downside scenarios it is possible that the company may need to obtain further support from LBC beyond that already agreed or defer some interest payments due on the debenture loans. At this point neither the additional funding nor the acceptance of the Council to defer interest can be assumed with absolute certainty. Accordingly, the directors have concluded that a material uncertainty continues to exist in respect of going concern.

During the first half of 2022, the airport is seeing a positive upturn and increasing confidence in passengers travelling across our core European market, possibly indicating the early stages of a sustainable and positive economic recovery. The company expects to return to profitable growth in 2023/24.

Key performance indicators (KPI's)

Given the straightforward nature of the business, the company's directors are of the opinion that analysis using KPI's is not currently necessary for an understanding of the development, performance or position of the business.

London Luton Airport Limited

Strategic Report
for the year ended 31 March 2021 (Continued)

Financial risk management

The company does not have any external financial relationships with banks or finance houses. The debenture loans to the company are from LBC, the shareholder, and are held at fair value at inception.

No repayments are scheduled until the end of the concession period. It is not, therefore, exposed to any financial risks resulting from changes in debt market prices, credit risk, and liquidity risk. The company does not use finance derivatives and as such no hedge accounting is required.

Price risk

The company is not currently exposed to commodity price risk as a result of its operations.

Credit risk

The company is only exposed to credit risk in respect of LLAOL which pays a concession fee to the company on a quarterly basis in arrears. LLAOL is bound by an open book policy with the company and therefore its internal auditors have access to monitor performance and viability. An annual internal audit is undertaken to ensure that the liquidity and financial position of LLAOL is sufficient to meet its obligations under the concession agreement. The company utilises the facilities of its parent, LBC, in ensuring minimal risk with its cash and investments.

Liquidity risk

Prior to the Covid pandemic LLAL received its concession income at four agreed dates on a quarterly basis. During 2020/21 LLAL received £814k concession income. Given the significant reduction in concession income during the year, LLAL used its agreed debenture loan facility to drawdown funding to support its continued operations.

Interest rate cash flow risk

The company has both interest bearing assets and interest bearing liabilities. Interest bearing assets include only cash balances, all of which earn interest at a fixed rate. The company maintains its debt at a mixture of fixed and variable rates reducing exposure to fluctuating interest rates. The directors will revisit the appropriateness of this and determine a policy should the company's operations change in size or nature.

Sustainability strategy

LLAL's sustainability strategy is, one of the most far reaching commitments to minimise environmental impact ever put forward by a UK airport.

LLAL is also the UK's most socially impactful airport. Its social impact comes not just from the substantial financial contributions made to Luton's public-sector services and community organisations.

LLAL's commitment to sustainable development is to restore and regenerate and is embedded in the company's strategic objectives as follows

Protect and enhance the natural environment

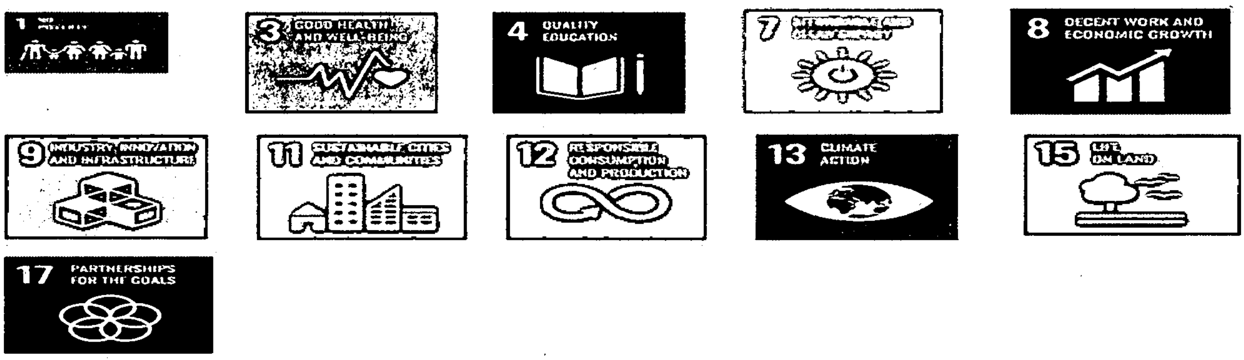
Deliver climate resilience and business continuity

Lead the transition to Net Zero

Become a national hub for green technology, finance and innovation

Be a place to thrive

Through this, LLAL supports, and will contribute to, many of the Sustainability Development Goals established by the United Nations to support and guide the achievement of a blueprint to achieve "a better and more sustainable future for all"



These objectives are embedded in the strategy which integrates governance and requirements aligned with the Global Reporting Initiative (GRI) which LLAL aims to report against in the future.

LLAL aspires to be a sustainability leader, building on its unique position as a community airport owner, by leading an ambitious transition towards net zero, restoring and regenerating the environment; future proofing the company's assets; and strengthening its position as a world leader in creating community value through the delivery of inclusive socio-economic growth.

LLAL's approach to achieving its strategic objectives recognises a varying degree of control and influence and the need to work closely with stakeholders to deliver opportunities and solutions across the full scope of our activities including the airport's future expansion.

Focus on Net Zero

LLAL has created a dedicated and ambitious Net Zero Strategy. This particular objective supports Luton Borough Council's pledge to ensure that Luton is a carbon neutral town by 2040 and outlines LLAL's carbon ambition around the following commitments:

London Luton Airport Limited

Strategic report
for the year ended 31 March 2021 (continued)

- to minimise carbon emissions associated with construction
- to work with the airport operator to deliver carbon neutral airport ground operations by 2030 and net zero by 2040
- to play its part in delivering the Government's ambition of net zero aviation through supply of sustainable aviation fuels and support for electric aircraft.

Carbon Neutral and Net Zero:

For both carbon neutral and net zero, the first steps are the same – both require the company to reduce its emissions to the maximum extent and work with our partners to reduce theirs. The distinction between the two arises from how residual emissions from the atmosphere are addressed:

- By using carbon offsets to balance residual emissions to achieve carbon neutral surface access whilst establishing longer term interventions for carbon removal.
- By using local, land based community measures, where possible, to remove residual emissions to achieve net zero operations.

LLAL's approach is to:

- Innovate, where the focus is on those emissions which can be avoided by making changes to current activities
- Transition, where technology or behaviour changes are deployed to deliver the same output with lower emissions
- Transform, where local, community based projects ate introduced and supported to remove residual emissions form the atmosphere, achieving net zero

By order of the Board

M Turner
Company Secretary

10 June 2022

London Luton Airport Limited

Directors' report
for the year ended 31 March 2021

The directors present their report and the audited financial statements for the year ended 31st March 2021.

Future developments

Future developments for the company are set out in the Strategic report.

Results and dividends

The company's loss for the financial year is £109.8m (2020 restated profit: £0.3m). The Board does not recommend the payment of a dividend for the year ended 31.March 2021 (2020 – nil).

Directors

The directors who held office during the year and up to the date of signing the financial statements were:

W Akbar	
J Hussain	Chairman (from 25th May 2021)
A Malcolm	Chairman (to 25th May 2021)
A Donelon	Appointed 17th May 2022
K Malik	
A Nicholls	
T Saleem	Resigned 17th May 2022
J Young	
G Olver	Appointed 26th August 2021
M Turner	Appointed 26th August 2021

Dr Romano Pagliari of Cranfield University and Mr Roy Davis attend Board meetings in an advisory capacity. They are not Directors of the company and have no voting rights.

Employees

The company has no employees (2020: nil). Services to London Luton Airport Limited are carried out by employees of LBC and the company is charged for these as set out in note 7.

Corporate social responsibility

The year ended 31st March 2021 saw the continuation of the company's Community Funding Policy, which sets out the ways in which the company will contribute to the social, environmental and economic wellbeing of the communities surrounding London Luton Airport. Details of the Community Funding Policy are available on the company's website at lutonrising.org.uk.

Section 172 of the Companies Act 2006 requires directors to act in the way (s)he considers, in good faith, would be most likely to promote the success of the company for the benefit of its members as a whole, and in doing so have regard (amongst other matters) to—

a. The likely consequences of the decision in the long-term

b. The interests of the company's employees

c. The need to foster the company's business relationships with suppliers, customers and others

d. The impact of the company's operations on the community and the environment

e. The desirability of the company maintaining a reputation for high standards of business conduct

f. The need to act fairly as between members of the company

Directors' report
for the year ended 31 March 2021 (continued)

The agenda page of each meeting of the Board of Directors includes a paragraph reminding directors of the need to be mindful of their duty under section 172 in reaching their decisions and each report they consider includes a section where the report author sets out the implications of the proposals within that report for each of the matters, where appropriate, as set out above to which they must have regard.

The company has no direct employees; those who work on the company's behalf are either employed by the sole shareholder, Luton Council, or are employed through an agency or as a self-employed consultant. Nevertheless, the company places a high degree of importance on keeping its workforce fully informed of, and able to influence, the company's business. This is achieved through regular team briefings, either by email, by remote meetings or in person and such consultation and participation was particularly evident through the process of developing the company's annual Business Plan and its vision, mission, values and business principles.

The company has a strict prompt payment policy that helps to foster good relationships with our suppliers; our major business relationship is with our airport operator and this was only strengthened through the collaborative and constructive approach we adopted in meeting the challenges of the impact of the Covid-19 pandemic on the aviation industry.

Our Head of Engagement is responsible for leading on developing relationships with key stakeholders and this has been prominent through major statutory consultation exercises on our proposal to seek a Development Consent Order for the expansion of the airport. Links with neighbouring local authorities have been nurtured through the establishment of a London Luton Airport Regional Forum chaired by the Leader of Luton Council. As part of our recent consultation we held a number of in-person sessions with communities both in and around Luton as well as more informal engagement with business, community and faith leaders and groups.

Our most enduring engagement with our local community is through our sustained support for our Community Funding Programme which provides over £7m a year to local voluntary and community groups. This programme has been operating for almost twenty years which has led to the creation of some enduring and valued relationships and has demonstrated to the community that the company places inestimable value, both in policy and practice, on its positive social impact.

Similarly, the adoption of our "Green Controlled Growth" approach to airport expansion has demonstrated that we are serious in listening and responding to the concerns of those who are concerned at the environmental impacts of the aviation industry.

Our Business Plan includes a commitment to developing a system of integrated reporting that will better enable us to measure the total stakeholder value that our business generates which will help us to ensure that our impacts, both negative and positive, are clearly identified to enable our stakeholders to hold us to account for the negative and so that we can demonstrate that the benefits are distributed equitably across our communities.

Financial risk management

This has been documented within the Strategic Report on page 5.

Directors' insurance

The company maintains insurance policies on behalf of all the directors against liabilities arising from negligence, breach of duty, and breach of trust in relation to the company.

Directors' report
for the year ended 31 March 2021 (continued)

Going concern

Refer to the accounting policies (note 2) for a review of going concern.

Statement of directors' responsibilities in respect of the financial statements

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulation.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing the financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable United Kingdom Accounting Standards, comprising FRS 102, have been followed, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006.

Directors' confirmations

In the case of each director in office at the date the Directors' Report is approved:

- so far as the director is aware, there is no relevant audit information of which the company's auditors are unaware; and
- they have taken all the steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the company's auditors are aware of that information.

Charitable donations

The company has, through its Community Funding Programme, made donations during the financial year amounting to £8.3m (2020: £9.175m) to local charitable organisations based or operating in Luton and the surrounding area. Payments are analysed across the seven Funding Themes of the Programme as follows:

	2021	2020
	£000	£000
Children, Families & Young People	1,073	1,725
Citizen Enablement	720	792
Community Involvement	754	880
Community Safety	523	586
Environment & Economy	150	212
Health &Wellbeing	779	709
Leisure & Culture	4,333	4,271
	8,332	**9,175**

Carbon emissions

London Luton Airport Limited is committed to demonstrating its consumption of carbon during the year as a way of showing how it is progressing to deliver upon its Net Zero strategy.

The reporting scope for carbon emissions, at present, is limited specifically to include Hart House and the Airport Executive Park (units 1 – 8) and excludes Luton Airport.

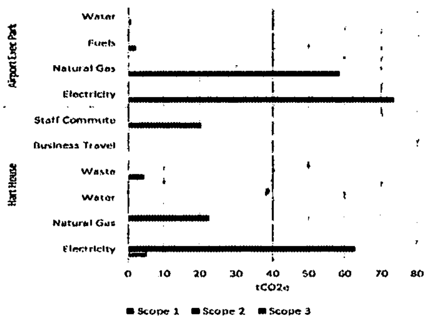
A baseline emissions exercise was carried out during the year based on an assessment of emissions during the period January to December 2019 (pre-covid). In summary, 251.8 tCO2e as noted in the table below was emitted during the year.

It is intended that this table will be updated annually.

London Luton Airport Limited

Directors' report
for the year ended 31 March 2021 (continued)

Baseline
Emissions Summary



Emissions Source	Scope 1 (tCO_2e)	Scope 2 (tCO_2e)	Scope 3 (tCO_2e)	Total (tCO_2e)	%
Electricity*		62.9	79.0	141.9	56.3%
Natural Gas	22.5		58.7	81.2	32.2%
Waste			4.6	4.6	1.8%
Fuels			2.3	2.3	0.9%
Water			1.2	1.2	0.5%
Business Travel			0.2	0.2	0.1%
Staff Commute			20.5	20.5	8.1%
Total (tCO_2e)	22.5	62.9	251.8	231.2	100.0%
% of Total	8.9%	25.0%	66.1%	100.0%	

* Also includes transmission and distribution (T&D) losses emissions (Scope 3).

Note:

Scope 1 Direct emissions – emissions produced form sources linked to a company's assets (22.5 tCO2e (9%))

Scope 2 Indirect emissions- emissions produced by the generation of electricity purchased from third parties and consumed in the company's assets (62.9tCO2e (25%))

Scope 3 Indirect emissions – emissions that arise as a consequence of the activities of the company, but occurs from sources not owned or controlled by the company (166.4 tCO2e (66%))

Independent auditors

PricewaterhouseCoopers LLP will be resigning as auditors on completion of the audit of these financial statements. The directors intend to appoint Azets as the company's auditors going forwards.

By order of the Board

Mark Turner
Company Secretary

10 June 2022

Independent auditors' report to the members of London Luton Airport Limited

Report on the audit of the financial statements

Qualified opinion

In our opinion, except for the effects of the matter described in the Basis for qualified opinion paragraph below, London Luton Airport Limited's financial statements:

- give a true and fair view of the state of the company's affairs as at 31 March 2021 and of its loss and cash flows for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual report and financial statements (the "Annual Report"), which comprise: the balance sheet as at 31 March 2021; the profit and loss account, the statement of comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Basis for qualified opinion

The directors have valued the company's principal asset, the freehold site on which London Luton Airport is operated, at £1,488m at 31 March 2021. As described in notes 3 and 13, there is a material uncertainty in deriving a reliable estimate of the fair value of this asset given the uncertainties created by the Covid 19 pandemic and the absence of recent and readily comparable market transactions. We have independently developed a reasonable range for the estimate of the valuation, based on assumptions which we considered to be appropriate, of between £835m and £1,300m. The directors' valuation of £1,488m falls outside what we consider to be a reasonable range. This is principally due to the use of an assumption of a pre-tax discount rate of 8% by the directors in deriving the valuation which is lower than we consider to be appropriate at the balance sheet date. In addition, at 31 March 2021 the company was in receipt of a substantial claim from the airport operator arising from the Covid 19 pandemic which triggered a force majeure clause in the Concession Agreement. This claim was settled in November 2021 through reduced concession fee receipts being agreed by the company and an extension of the Concession Agreement termination date from 31 March 2031 to 31 August 2032. The valuation of £1,488m makes no allowance for the reduction in value to be earned from the freehold asset as a consequence of this claim and subsequent settlement which we have concluded is not reasonable. In order to fall within the valuation range that we consider to be reasonable, the value at 31 March 2021 would need to be reduced by at least £188m. This would also change the gain on valuation of £73.9m recorded in the profit and loss account to a loss of at least £114.1m. It is noted, however, that even at this valuation amount a material uncertainty would remain in respect of the valuation which could be substantially less than £1,300m and in respect of the loss on valuation which could significantly exceed £114.1m. In addition, had the valuation been reduced by £188m, the deferred tax liability would also reduce by £35.7m with this amount being credited to the tax charge in the year. The net adjustment to net assets would be a reduction at 31 March 2021 of £152.3m.

In relation to the valuation of the airport freehold site, the directors have restated the prior year valuations to correct an understatement in the assumptions of profit per passenger in the period after the Concession Agreement ends, as described in note 13. In doing so they have also revised the pre-tax discount rate employed down to 8% as at 31 March 2020 and 2019. There is a material uncertainty in deriving a valuation of this asset at 31 March 2020 and 2019, due to the large range of potentially reasonable values of between £1,050m and £1,600m, and consequently on the gain or loss on investments recorded in 2020 and 2021. Our opinion is not modified in respect of the restatement of these prior year valuations.

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion.

Independence

We remained independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Material uncertainty related to going concern

Without further modifying our opinion on the financial statements, we have considered the adequacy of the disclosure made in note 2 to the financial statements concerning the company's ability to continue as a going concern. London Luton Airport Limited (the "company") continues to be impacted by the Covid-19 pandemic. In particular, the outlook for international travel remains uncertain, notwithstanding recent positive developments in passenger numbers, and under certain severe but plausible downside scenarios it is possible that the company may need to obtain further support from Luton Borough Council or defer some interest payments due on the debenture loans. At this point neither the additional funding nor the acceptance of the Council to defer interest can be assumed with certainty. These conditions, along with the other matters explained in note 2 to the financial statements, indicate the existence of a material uncertainty which may cast significant doubt about the company's ability to continue as a going concern. The financial statements do not include the adjustments that would result if the company were unable to continue as a going concern.

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities, other than in respect of the valuation of the airport asset at 31 March 2021 for which we have qualified our audit opinion on the financial statements as described above.

With respect to the Strategic report and Directors' report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on our work undertaken in the course of the audit, the Companies Act 2006 requires us also to report certain opinions and matters as described below.

Strategic report and Directors' report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic report and Directors' report for the year ended 31 March 2021 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic report and Directors' report, other than in respect of the valuation of the airport asset at 31 March 2021 for which we have qualified our audit opinion on the financial statements as described above.

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Statement of directors' responsibilities in respect of the financial statements, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below.

Based on our understanding of the company and industry, we identified that the principal risks of non-compliance with laws and regulations related to environmental regulations and data protection requirements, and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the financial statements such as the Companies Act 2006. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to posting inappropriate journal entries and management bias in significant accounting estimates. Audit procedures performed by the engagement team included:

- Discussing with management and the company's legal team any known or suspected instances of non-compliance with laws and regulations and fraud;
- Reading the Board minutes to identify any issues which could indicate non-compliance with laws and regulations;
- Challenging assumptions and judgements made by management in its significant accounting estimates in relation to the carrying value of the rail assets in construction and the valuation of investment properties including the airport valuation and capitalised development consent order costs (please see notes to the financial statements for details); and
- Identifying and testing journal entries, in particular any journal entries posted with unusual account combinations and journals crediting revenue.

There are inherent limitations in the audit procedures described above. We are less likely to become aware of instances of non-compliance with laws and regulations that are not closely related to events and transactions reflected in the financial statements. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Use of this report

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Other required reporting

Companies Act 2006 exception reporting

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not obtained all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the company, or returns adequate for our audit have not been received from branches not visited by us; or
- certain disclosures of directors' remuneration specified by law are not made; or
- the financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

R P Girdlestone

Robert Girdlestone (Senior Statutory Auditor)

for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Watford
10 June 2022

London Luton Airport Limited

Profit and loss account
for the year ended 31 March 2021

	Note	2021 £'000	As restated 2020 £'000
Turnover	6	**814**	**55,077**
Administrative expenses		**(16,341)**	(16,104)
Impairment of property plant & equipment		**(191,902)**	-
Change in fair value of investment properties		**73,925**	(25,641)
Operating (loss) / profit	7	**(133,504)**	13,332
Interest receivable and similar income	9	**0**	28
Interest payable and similar expenses	10	**(4,674)**	(3,913)
(Loss)/Profit before taxation		**(138,178)**	**9,447**
Tax on (loss)/profit	11	**28,407**	(9,113)
Loss/(profit) for the financial year		**(109,771)**	**334**

London Luton Airport Limited

Statement of comprehensive income
for the year ended 31 March 2021

	Note	2021 £'000	As restated 2020 £'000
Loss/(profit) for the financial year		**(109,771)**	**334**
Re-measurement of net defined benefit obligation		(101)	187
Current tax deductions relating to net defined benefit *obligation*	20	35	(40)
Total comprehensive income/ (expense) for the financial year		**(109,837)**	**481**

London Luton Airport Limited

Balance sheet
as at 31 March 2021

	Note	2021 £'000	Restated 2020 £'000
Fixed assets			
Investment properties	13	**1,576,668**	**1,498,599**
Property, plant & equipment	14	**77,000**	**191,516**
		1,653,668	**1,690,115**
Current assets			
Debtors	15	**10,987**	**12,850**
Cash at bank and in hand		**413**	**382**
Total current assets		**11,400**	**13,232**
Creditors: amounts falling due within one year	16	**(5,932)**	**(10,125)**
Net current liabilities		**5,468**	**3,107**
Total assets less current liabilities		**1,659,136**	**1,693,222**
Creditors: amounts falling due after more than one year	17	**(350,262)**	**(253,161)**
Provisions for liabilities	19	**(211,480)**	**(232,825)**
Pension deficit	20	**(1,626)**	**(1,631)**
Net assets		**1,095,768**	**1,205,605**
Capital and reserves			
Called up share capital	21	**44,837**	**44,837**
Retained earnings		**1,050,931**	**1,160,768**
Total shareholders' funds		**1,095,768**	**1,205,605**

The notes on pages 24 to 45 are an integral part of these financial statements. The investment properties value as at 31 March 2020 has been restated to £1,498.6k from £615.1m. Associated deferred tax liabilities have also been restated by £167.9m to £232.8m (Note 13).

The financial statements on pages 18 to 45 were approved and authorised for issue by the Board of Directors and were signed on its behalf by:

J Hussein, Director **Registered Number 2020381**

J. Hussein

10 June 2022

London Luton Airport Limited

Statement of changes in equity
for the year ended 31 March 2021

	Called up share capital	Retained earnings	Total shareholders' fund
	£'000	£'000	£'000
Balance at 1 April 2019 before restatement	44,837	448,297	493,134
restatement to retained earning		879,000	879,000
Deferred tax effect of restatement		(167,010)	(167,010)
Balance at 1 April 2019 after restatement	44,837	1,160,287	1,205,124
Profit/(loss) for the financial year (as restated)	0	334	334
Other comprehensive expenses	0	147	147
Balance at 31 March 2020 restated	**44,837**	**1,160,768**	**1,205,605**
Balance at 1 April 2020	44,837	1,160,768	1,205,605
(Loss) for the financial year	-	(109,771)	(109,771)
Other comprehensive expense	-	(66)	(66)
Total comprehensive income for the financial year	**0**	**(109,837)**	(109,837)
Total transactions with owners - dividends	-	-	-
Balance at 31 March 2021	**44,837**	**1,050,931**	**1,095,768**

London Luton Airport Limited

Statement of cash flows
for the year ended 31 March 2021

	2021 £'000	As Restated 2020 £'000
Cash flows from operating activities		
(Loss)/ profit for the financial year	**(109,771)**	**334**
Adjustments for:		
DART & CPAR asset impairment	**191,902**	**-**
Taxation (credit) / charge	**(28,407)**	**9,113**
Interest payable and similar expenses	**4,674**	**3,913**
Interest receivable and similar income	**-**	**(28)**
Change in fair value of investment properties	**(73,925)**	**25,641**
Decrease in debtors	**8,175**	**1,000**
Decrease in creditors	**(1,047)**	**(4,144)**
Corporation tax paid	**-**	**(6,408)**
Net cash (used in) / generated from operating activities	**(8,399)**	**29,421**
Cash flows from investing activities		
Purchase of tangible assets	**(83,997)**	**(111,561)**
Interest received	**-**	**28**
Net cash used in investing activities	**(83,997)**	**(111,533)**
Cash flows from financing activities		
Interest paid	**(4,674)**	**(15,798)**
Receipts from loan facility	**97,101**	**115,940**
Dividends paid	**-**	**(18,000)**
Net cash generated from financing activities	**92,427**	**82,142**
Net increase in cash and cash equivalents	**31**	**30**
Cash and cash equivalents at the beginning of year	**382**	**352**
Cash and cash equivalents at the end of year	**413**	**382**

London Luton Airport Limited

Statement of cash flows
for the year ended 31 March 2021 (Continued)

The cash flow statement for the year ended 31 March 2020 has been restated to reflect the impact of the increase in the valuation of the investment property. The impact of the change on the financial cash flow statement was an increase of £3.6m in reported profit for the year, an increase in the tax charge of £0.9m, offset by a reduction of £4.5m in the change in fair value of investment properties. This combined impact results in a nil movement in net cash (used in) / generated from operating activities.

London Luton Airport Limited

Notes to the financial statements for the year ended 31 March

General information

London Luton Airport Limited ("the company") is the owner of London Luton Airport, together with a number of other investment properties and parcels of land. The company operates entirely in the UK. The airport is leased to London Luton Airport Operations Limited ("LLAOL") as set out in note 5.

The company is a private company limited by shares and is incorporated and domiciled in the United Kingdom. The address of its registered office is Hart House Business Centre, Kimpton Road, Luton, LU2 0LA.

1. Statement of compliance

The individual financial statements of London Luton Airport Limited have been prepared in compliance with United Kingdom Accounting Standards, comprising Financial Reporting Standard 102, "The Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland" ("FRS 102") and the Companies Act 2006.

2. Accounting policies

The accounting policies have been applied consistently other than where new policies have been adopted.

Basis of preparation

The financial statements are prepared on the going concern basis, under the historical cost convention, as modified by the revaluation of investment properties and in accordance with the Companies Act 2006 and applicable accounting standards in the United Kingdom. The principal accounting policies are set out below.

The directors have negotiated a further stabilisation plan (the "plan") with the shareholder, Luton Borough Council (LBC), which was approved on 28th June 2021 and includes agreement to provide an additional £139m of financial support. This is in addition to the original £60m agreed with the shareholder in June 2020 in response to the need to stabilise the funding requirements of LLAL resulting from the initial economic challenges of the covid pandemic. The plan provides for financial support to the company through the period of the impact of the pandemic until such time as the company's income reaches a point at which it is sufficient on its own to cover the expenses of the business. The plan allows for fluctuations in actual passenger numbers against forecasts. The shareholder has confirmed its intention to provide the agreed amount of £139m of financial support to the company in writing. Accordingly, the directors continue to adopt the going concern basis in preparing the financial statements.

The outlook for international travel remains uncertain, notwithstanding recent positive developments in passenger numbers, and under certain severe but plausible downside scenarios it is possible that the company may need to obtain further support from Luton Borough Council beyond that already agreed or defer some interest payments due on the debenture loans. At this point neither the additional funding nor the acceptance of the Council to defer interest can be assumed with absolute certainty. These circumstances indicate the existence of a material uncertainty which may cast significant doubt on the company's ability to continue as a going concern. The financial statements do not include the adjustments which would be necessary if the company were unable to continue as a going concern.

We have restated prior year balances in respect of investment properties and deferred tax as described in the Investment properties section below.

Notes to the financial statements for the year ended 31 March 2021 (continued)

Turnover

Turnover relating to concession income is recognised in line with the concession contract, see note 6 for further details. Other property income represents amounts falling due under rental agreements.

Leased assets

As a lessee, rental costs under operating leases are charged to the profit and loss account on a straight line basis over the periods of the leases.

Taxation

Taxation expense for the period comprises current and deferred tax recognised in the reporting period. Tax is recognised in the profit and loss account, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case tax is also recognised in other comprehensive income or directly in equity respectively.

Current or deferred taxation assets and liabilities are not discounted.

(i) Current tax

Current tax is the amount of income tax payable in respect of the taxable profit for the year or prior years. Tax is calculated on the basis of tax rates and laws that have been enacted or substantively enacted by the period end.

Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

(ii) Deferred tax

Deferred tax arises from timing differences that are differences between taxable profits and total comprehensive income as stated in the financial statements. These timing differences arise from the inclusion of income and expenses in tax assessments in periods different from those in which they are recognised in financial statements.

Deferred tax is recognised on all timing differences at the reporting date except for certain exceptions. Unrelieved tax losses and other deferred tax assets are only recognised when it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits.

Deferred tax is measured using tax rates and laws that have been enacted or substantively enacted by the period end and that are expected to apply to the reversal of the timing difference.

Financial instruments

The company has chosen to adopt the Sections 11 and 12 of FRS 102 in respect of financial instruments.

The company only enters into basic financial instruments transactions that result in the recognition of financial assets and liabilities like trade and other accounts receivable and payable, and loans from banks and other third parties.

Notes to the financial statements for the year ended 31 March 2021 (continued)

(i) Financial assets

Basic financial assets, including trade and other receivables, and cash and bank balances, are initially recognised at transaction price, unless the arrangement constitutes a financing transaction, where the transaction is measured at the present value of the future receipts discounted at a market rate of interest, and thereafter measured at amortised cost.

These are assessed at the end of each reporting period for objective evidence of impairment. If objective evidence of impairment is found, an impairment loss is recognised in the Profit and Loss Account.

(ii) Financial liabilities

Basic financial liabilities, including trade and other payables, and loans from fellow group companies, are initially recognised at transaction price, unless the arrangement constitutes a financing transaction, where the debt instrument is measured at the present value of the future receipts discounted at a market rate of interest.

Debt instruments are subsequently carried at amortised cost, using the effective interest rate method.

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities.

Financial liabilities are derecognised when the liability is extinguished, that is when the contractual obligation is discharged, cancelled or expires.

Pension costs

Certain employees of the airport business prior to the granting of the Concession Contract had taken early retirement, and the company had agreed to enhance their pension benefits. A provision was made, in the financial year that the employee had retired, to reflect the present value of the anticipated future costs of providing the enhanced benefits.

The balance represents the company's unfunded obligation to make annual contributions to the Bedfordshire Local Government Pension Scheme in respect of former employees' entitlement to pension augmentations arising on redundancy.

This provision has been assessed in accordance with the advice of an independent actuary using the following principal assumptions.

	% pa
Pensions increase rate	2.80
Discount rate	1.70

Notes to the financial statements for the year ended 31 March 2021 (continued)

An actuarial valuation for the purposes of settling London Luton Airport Limited's actual contributions was carried out at 31 March 2010 by Hymans Robertson LLP on the instructions of the then administering authority, Bedfordshire County Council. The results of this valuation have been projected forward to 31 March 2021 by Barnett Waddingham LLP on the instruction of the current administering authority, Bedford Borough Council, and reflected in these financial statements. The scheme is a defined benefits scheme.

Investment properties

The company includes investment properties at their fair value at the balance sheet date on the basis of the external valuer's valuation. Any gains or losses through the change in fair value are recorded through the income statement. A full valuation was carried out by Deloitte LLP as at 31st March 2021.

London Luton Airport Limited's freehold and leasehold properties were valued on 31 March 2021 by an external valuer, Deloitte LLP. The valuations were prepared in accordance with the requirements of the Royal Institution of Chartered Surveyors (RICS) Valuation – Professional Standards as they apply in the UK (updated and amended in 2019) and the Global Standards (updated in 2020) which incorporates the International Valuation Standards (IVS). The RICS Valuation – Professional Standards are often informally referred to as the "Red Book". In accordance with the Red Book and IFRS 13, Deloitte LLP adopted Fair Value as the basis of valuation.

The external valuer's included in their report, the following statement:

"The outbreak of the Novel Coronavirus (COVID-19), declared by the World Health Organisation as a "Global Pandemic" on the 11th March 2020, has impacted global financial markets. Travel restrictions have been implemented by many countries. Market activity is being impacted in many sectors. As at the valuation date, we consider that we can attach less weight to previous market evidence for comparison purposes to inform opinions of value. Indeed, the current response to COVID-19 means that we are faced with an unprecedented set of circumstances on which to base a judgement. Our valuations are therefore reported on the basis of 'material valuation uncertainty' as per VPS 3 and VPGA 10 of the RICS Red Book Global. Consequently, less certainty – and a higher degree of caution – should be attached to our valuation than would normally be the case. Given the unknown future impact that COVID-19 might have on the real estate market, we recommend that you keep the valuations under frequent review. As at the valuation date (31 March 2021) COVID-19 had resulted in widespread restrictions on travel, with travel in the UK only permitted where essential to do so with similar restrictions in place globally. These travel restrictions led to air passenger reductions of over 90% in most EMEA airports in Q2 2020 according to Fitch Ratings. Further, COVID-19 has resulted in economic contractions globally, affecting demand for air travel."

During 2021 it was identified that the assumption of profit per passenger used to estimate the reversionary value of the company's freehold and leasehold properties at the end of the current Concession Agreement was understated. Accordingly, the prior year amounts have been restated in order to adjust the value accordingly and to present the valuation on a consistent basis with the current year assumptions. This adjustment increased investment properties at 31 March 2020 by £883.5m and deferred tax liabilities by £167.9m. Net assets increased by £715.6m and the profit for the year in 2020 increased by £3.6m. An explicit discounted cash flow methodology, including sensitivity analysis, has been adopted based on assumptions regarding passenger growth and RPI forecasts informed by analysis of both historical trends and knowledge of other airports as well as prevailing circumstances and forecasts at the date of valuation.

Notes to the financial statements for the year ended 31 March 2021 (continued)

Valuing the airport freehold in the current market conditions presents significant challenges given the economic uncertainty and the lack of recent, comparable transactions to provide a reliable benchmark. Accordingly there exists a material uncertainty in respect of the valuation as at 31 March 2021 and, as restated, in prior years due to the wide range of valuations that could be regarded as reasonable.

Further investment properties are included within "Assets in the course of construction" in Note 13 This principally consists of costs incurred to date in progressing the company's Development Consent Order (DCO) to obtain the necessary permissions for the expansion of the airport. These assets are held at fair value which, given the early stage of these projects, is estimated to be the costs incurred to this point.

Analysis of net debt

The company has taken advantage of the exemption is permitted by s.3.1B of FRS 102 for small companies not to analyse net debt in the statement of cash flows

Assets in the course of construction

Assets in the course of construction are stated at cost. These assets are not depreciated until they are ready for use.

Property, Plant and Equipment

Property, plant and Equipment are stated at cost (or deemed cost) less accumulated depreciation and accumulated impairment losses. Cost includes the original purchase price, costs directly attributable to bringing the asset to its working condition for its intended use, dismantling and restoration costs and borrowing cost capitalised.

Borrowing costs

General and specific borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. All other borrowing costs are recognised in profit and loss in the period in which they are incurred.

3. Critical accounting judgements and estimation uncertainty

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

a) Critical judgements in applying the entity's accounting policies

   The company has exercised judgement in classifying the costs incurred to date in progressing the DCO as an investment property, carried at fair value which is considered to equate to cost at the present time. Further the judgement that the costs incurred cannot be reasonably divided into separate phases of expansion within the application is also a significant judgement.

b) Critical accounting estimates and assumptions

The company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are as follows:

Defined benefit pension scheme

The company has an obligation to pay pension benefits to certain former employees now employed by LLAOL. The cost of these benefits and the present value of the obligation depend on a number of factors, including; life expectancy and the discount rate on corporate bonds. Management estimates these factors in determining the net pension obligation in the balance sheet. The assumptions reflect historical experience and current trends. See note 20 for the disclosures relating to the defined benefit pension scheme.

Fair value of investment properties

The valuation, undertaken by Deloitte LLP, took into account forecast future cash flows based primarily on passenger growth and was discounted using a discount rate of 8.0% being an estimate of the company's long term weighted average cost of capital on a pre-tax basis. The DCF analysis assumes a reversionary value of the airport at the expiry of the concession on 31st March 2031 including assumptions on exit yield and income. The valuation was made in accordance with the RICS Appraisal and Valuation Manual. There is a material uncertainty in respect of this estimated value given the wide range of valuations that could be considered reasonable. Accordingly, the value could change materially in subsequent reporting periods.

Capitalisation of development project costs

As a result of the impact of the pandemic on the company's business, the directors have reviewed each of the development projects to assess whether the costs incurred on them still meet the criteria for capitalisation, in particular, that relating to the future expansion of the airport. On the basis of forecast passenger numbers, provided by a number of sources both commissioned by and independent of the company, there is sufficient probability that future economic benefits will flow to the company to justify the continued capitalisation of the costs related to those projects and that the fair value of these amounts, held as investment properties, is not less than the costs incurred.

Impairment of property plant and equipment

The calculation of the impairment of DART involves significant judgement in respect of the volume of passengers, the price of tickets and the appropriate discount rate to be applied, together with the estimates of the costs of operating it. Changes to these estimates, which are possible within the next year, could have a material impact on the amount of the impairment recorded to date.

Notes to the financial statements for the year ended 31 March 2021 (continued)

4. Property, plant & equipment

Property, plant and equipment are assessed for impairment when an impairment trigger in accordance with FRS102 s27 is identified. As at 31 March 2021, it was identified that the forecast net cash outflows in relation to the construction of the Luton DART system were significantly higher than the initial plan indicating an impairment in relation to the DART capitalised costs. The costs capitalised in the course of construction were £261.7m as at 31 March 2021. The recoverable amount was determined based on a value-in-use calculation which requires the use of assumptions. The recoverable amount was calculated as £77m indicating that an impairment of £184.7m was required.

The recoverable amount is calculated based on discounted cash flow projections of the business over an asset useful economic life of 40 years where the discount rate is calculated using a pre-tax discount rate of 11.4%, which the directors consider to be towards the higher end of an appropriate discount rate range for such an impairment assessment.

Short term projections are based on the latest forecast approved by the Board and longer term projections reflect a year on year increase of 2.5% per annum to reflect inflation.

The sensitivity analysis below shows the impact on the valuation of reasonably possible changes to the respective assumptions:

	Increase/(decrease) in asset valuation (£'m)
Operating costs growth	
+10%	(5.5)
-10%	5.5
Discount rate	
+0.5%	(4.2)
-0.5%	4.6
Useful economic life	
+10 years	1.9
-10 years	(4.3)

Notes to the financial statements for the year ended 31 March 2021(continued)

5. Concession contract

On 20 August 1998 ('the concession date') the company entered into a concession contract with an unrelated entity, London Luton Airport Operations Limited ("LLAOL").

Under the terms of this contract LLAOL was granted a concession to operate the airport for a period of 30 years ('the concession period') and a lease over the company's land and buildings. In return LLAOL undertook to pay an annual concession fee to the company comprising of £3 million as a minimum fixed payment or a greater amount based on workload units (being each departing and arriving passenger and each 100 tonnes of freight) as prescribed in the concession agreement and, subject to the continuing growth of passenger numbers, fund an extensive capital investment programme. At the end of the concession period the assets, liabilities and operations of the airport revert to the ownership and use of the company.

In August 2012 a supplemental agreement to the concession contract was reached between LLAL and LLAOL. This agreement commits the operators to undertake a significant programme of development works to increase the Airport's capacity to handle throughput of up to 18 million passengers per year, in return for an extension of the Concession Period to March 31st 2031. The concession agreement was further amended in January 2014 to provide for a scheme to rebate the Concession Fee Rate payable by the airport operator in certain circumstances, in order to encourage passenger growth.

At the concession date the trading assets and liabilities of the company were transferred to LLAOL at book value. No profit or loss arose on the transfer of these assets and liabilities. The employees of the company were also transferred to LLAOL.

As the company no longer operates the airport itself, the land and buildings have become investment properties. At the instruction of the company, Deloitte LLP have valued the freehold interest in London Luton Airport as at 31 March 2021.

In April 2020 LLAOL informed the company that, in their belief, as a result of the pandemic being declared a Special Force Majeure event had occurred and that the provisions of clause 10.5 of the Concession Agreement had come into effect. This necessitated an extended period of negotiation: firstly between LLAL and LLAOL which culminated in a settlement being reached in November 2021; and, secondly between LLAL and its shareholder to agree a plan to support the company financially to enable it to continue as a going concern until such time as its income is sufficient to meet its expenses; this plan was approved on 28th June 2021.

6. Turnover

	2021	2020
	£'000	£'000
Concession income	**-**	**54,187**
Other property income	**814**	**890**
Other income	**-**	**-**
Total investment income	**814**	**55,077**

7. Operating (loss) / profit

	2021	2020
	£'000	£'000
Operating (loss) /profit is stated after the following amounts have been charged:		
Operating leases - land and buildings	**3,181**	**3,086**
Charge for enhanced pension payments	**33**	**38**
Charitable donations	**8,332**	**9,175**
Auditor's remuneration:		
The audit of the company	**82**	**57**
Tax compliance services	**10**	**11**
Tax advisory services	24	**37**
Other services	**596**	**147**

The shareholder, Luton Borough Council, provides professional services to the company. Charges to the company for these services amounted to £2,533,876 (2020: £1,501,836). £3,086,393 (2020:

Notes to the financial statements for the year ended 31 March 2021 (continued)

£2,898,968) of the operating lease charge for a car park on the airport premises and for the adjacent area of Wigmore Valley Park is with Luton Borough Council on commercial terms. Luton Borough Council is the company's controlling party by virtue of its majority shareholding. The company has no employees. Services to the company are carried out by employees of Luton Borough Council and the company is charged for these as set out above. Accordingly, there is no key management personnel compensation.

8. Directors' emoluments

Directors' emoluments for the financial year amounted to £nil (2020: £nil). All of the directors are council members and therefore do not qualify for remuneration.

9. Interest receivable and similar income

	2021	2020
	£'000	£'000
Interest receivable	-	28

10. Interest payable and similar expenses

	2021	2020
	£'000	£'000
Interest on debenture loans - repayable after more than 5 years (note 17)	**4,674**	3,913

The total interest paid in the year was £24,312,977 (2020: £15,798,307), of which £19,139,986 (2020: £11,885,268) in relation to the company's development projects was capitalised.

Notes to the financial statements for the year ended 31 March 2021 (continued)

11. Tax on profit

	2021	2020 Restated
	£'000	£'000
Current tax		
United Kingdom corporation tax on profits of the financial year	-	2,904
Adjustments in respect of prior years	68	(127)
	68	2,777
Deferred tax :		
Origination and reversing of timing differences	(28,407)	(696)
Adjustments in respect of prior years	(68)	73
Change in tax rates	-	6,959
Total deferred tax	(28,475)	6,336
Total tax (credit)/ charge on profit	(28,407)	9,113

Tax on profit (continued)

The tax assessed for the financial year is higher (2020:higher) than the standard rate of corporation tax in the UK of 19% (2020: 19%). The differences are explained below:

	2021	2020 Restated
	£'000	£'000
(Loss) / profit before tax	**(138,178)**	**9,447**
Profit before tax multiplied by standard rate in the UK of 19% (2020: 19%)	**(26,254)**	**1,795**
Effects of:		
Expenses non-deductible for tax purposes	**34,062**	**22**
Deferred tax not provided for	**(39)**	**850**
Enhanced costs revalued properties	**(36,176)**	**(459)**
Adjustments in respect of prior years	-	**(54)**
Tax rate change	-	**6,959**
Total tax charge/ (credit)	**(28,407)**	**9,113**

Factors that may affect future tax rate

Changes to the UK Corporation tax rates were substantially enacted as part of the Finance Bill 2015 (on 26 October 2015) and Finance Bill 2016 (on 7 September 2016). These include reductions to the main rate to 17% from 1 April 2020. This provision was rescinded on 17th March 2020 leaving the main rate at 19%. Deferred taxes at the balance sheet date have been measured using this enacted tax rate and reflected in these financial statements.

12. Dividends

	2021	2020
	£'000	£'000
On ordinary equity shares	-	-
Approved : nil pence (2020:nil pence) per share	-	-

13. Investment properties

The interest in the airport and other properties has been valued in accordance with the circumstances and principles set out in notes 2 and 3. Note 3 also describes the material uncertainty that exists in respect of the airport valuation at 31 March 2021, 2020 and 2019

The "Assets in the course of construction" includes £9,459,991 (2020: £16,201,000) in respect of the commercial development sites at Bartlett Square and Century Park, and £47,854,696 (2020: £37,883,000) in respect of the Future LuToN project (DCO costs).

The balance sheet, profit and loss, statement of changes in equity and statement of cash flows for the year ended 31 March 2020 have been restated resulting in an increase in the valuation of the investment property impacting 2020 and prior periods. The impact of the change on the financial statements was an increase in opening retained earnings at 1 April 2019 of £712m, which was the net of an increase in the value of investment properties of £879m offset by an associated decrease in deferred tax liabilities of £167m.

In the year to 31 March 2020 the impact of the restatement was an increase in profit of £3.6m.

	Airport (Restated)	Other Properties	Assets in the course of construction	Total
	£'000	£'000	£'000	£'000
Balance as at 31 March 2019 (as reported)	560,000	22,325	33,387	615,712
Fair value adjustments (impact of restatement)	879,000			879,000
Balance at 31 March 2019 (as restated)	1,439,000	22,325	33,387	1,494,712
Additions in the year		8,831	20,697	29,528
Fair value adjustments (as restated)	(25,000)	(641)		(25,641)
Balance at 31 March 2020 (as restated)	1,414,000	30,515	54,084	1,498,599
Additions in the year		810	10,552	11,362
Fair value adjustments	74,000	(75)		73,925
Impairment			(7,218)	(7,218)
Balance at 31 March 2021	**1,488,000**	**31,250**	**57,418**	**1,576,668**

Notes to the financial statements
for the year ended 31 March 2021 (continued)

Restated Balance Sheet
as at 31 March 2020

	As previously reported £'000	Adjustments £'000	Restated £'000
Investment properties	615,099	883,500	1,498,599
Deferred tax liabilities	(64,960)	(167,865)	(232,825)
Retained earnings	445,133	715,635	1,160,768

Restated Profit and loss account
as at 31 March 2020

	As previously reported £'000	Adjustments £'000	Restated £'000
Change in fair value of investment properties	(30,141)	4,500	(25,641)
Loss for year ended 31 March 2020	(3,311)	3,645	334

14. Property, plant & equipment

	Assets in the course of construction £'000
Balance at 1 April 2020	191,516
Additions in year	70,168
Impairment	(184,684)
Balance at 31 March 2021	**77,000**

The "assets in the course of construction" relates to the Luton DART (Direct Air-Rail Transit) mass passenger transit system linking Luton Airport Parkway railway station to the central terminal area of London Luton Airport.

The impairment reflects the prolonged expected impact on passenger numbers of the pandemic and additional costs incurred to operationalise the project.

15. Debtors

	2021 £'000	2020 £'000
Deferred tax (note 18)	**6,636**	324
Prepayments and accrued income	**4,351**	12,526
	10,987	12,850

Notes to the financial statements for the year ended 31 March 2021 (continued)

16. Creditors: amounts falling due within one year

	2021	2020
	£'000	£'000
Corporation tax	-	-
Other taxation and social security	-	-
Other creditors	5,932	10,125
	5,932	10,125

Notes to the financial statements for the year ended 31 March 2021 (continued)

17. Creditors: amounts falling due after more than one year

	2021	2020
Debenture loans Maturity loans non-instalment	**£'000**	£'000
Debenture loan 1 – interest fixed at 12%	3,153	3,153
Debenture loans 2 & 3 – interest at 4% over three months LIBOR	7,216	7,216
Debenture loan 4 – interest 4% over six months LIBOR	1,788	1,788
Debenture loan 5 – interest fixed at 12.125%	3,102	3,102
Debenture loan 6 – interest at 4% over six months GBR	1,662	1,662
Debenture loan 7 – interest at 7.58% over three months LIBOR	11,000	11,000
Debenture loan 8 – interest fixed at 11.5%	12,000	12,000
Debenture loan 9 – interest fixed at 11.5%	3,000	3,000
Debenture loan 10 – 74– interest fixed at 8%	307,341	210,240
	350,262	**253,161**

The debenture loans are from Luton Borough Council, the shareholder. The repayment in full in a single payment of the principal in respect of debenture loans 1 to 6 is scheduled for 28th March 2028 and of debenture loans 7 to 74 for 1st April 2031. The debentures are secured on the total assets of the company.

Luton Borough Council has provided the company with a loan facility of £527m (2020: £285.0m), of which £307.34m (2020: £210.2m) has been drawn down as at 31 March 2021. The amounts drawn down are represented by debentures 10 to 74 above. The loan facility attracts a fixed interest rate of 8% (2020: 8%) and the maturity date is 1 April 2031.

Notes to the financial statements for the year ended 31 March 2021 (continued)

18. Deferred tax asset

The deferred tax asset represents the following:

	2021 £'000	2020 £'000
Deferred tax in relation to pensions liability	-	324
Deferred tax at 1 April (restated)	324	340
Deferred tax charge in the profit and loss account	6,312	(16)
Deferred tax asset at 31 March	**6,636**	**324**

19. Provisions for liabilities

The deferred tax liability arises wholly in relation to investment properties.

	2021 £'000	2020 restated £'000
Balance at 1 April (restated)	232,825	226,511
Deferred tax in respect of fair value adjustments in year	(22,499)	(2,975)
Adjustment in respect of prior year	68	72
Deferred tax in respect of capitalised interest	1,086	2,258
Change in tax rate	-	6,959
Balance at 31 March	**211,480**	**232,825**

In the Spring Budget 2021, the Government announced that from 1 April 2023 the corporation tax rate will increase to 25%. As the proposal to increase the rate to 25% had not been substantively enacted at the balance sheet date, its effects are not included in these financial statements.

Notes to the financial statements for the year ended 31 March 2021 (continued)

20. Pension commitments

Certain employees of the airport business prior to the granting of the concession contract had taken early retirement, and the company had agreed to enhance their pension benefits. A provision was made, in the financial year that the employee had retired, to reflect the present value of the anticipated future costs of providing the enhanced benefits.

The balance represents the company's unfunded obligation to make annual contributions to the Bedfordshire Local Government Pension Scheme (LGPS) in respect of former employees' entitlement to pension augmentations arising on redundancy. The LGPS is a defined benefit statutory scheme. The cost charged to the company is based on the actual cost attributable to the former employees.

a) Defined benefit scheme

An actuarial valuation of the Bedfordshire Pension Fund for the purposes of settling London Luton Airport Limited's actual contributions was carried out at 31 March 2010 using the projected unit basis, by Hymans Robertson LLP, independent consulting actuaries. The results of this valuation have been projected forward to 31 March 2020 by Barnett Waddingham LLP. The major assumptions used by the actuary were:

	2021	2020
	%	%
Pension increase rate	**2.80%**	1.95
Discount rate	**1.70%**	2.25

The mortality assumptions used were as follows:

	2021	2020
	years	years
Longevity at age 65 for current pensioners:		
– Men	**21.9**	22.2
– Women	**24.3**	24.3

	2021	2020
	£'000's	£000's
Pension value of scheme liabilities	(1,626)	(1,631)

Notes to the financial statements for the year ended 31 March 2021 (continued)

20. Pension commitments (continued)

b) Reconciliation of present value of scheme liabilities

	2021 £'000	2020 £'000
At 1 April	**1,631**	1,924
Interest cost	**34**	39
Unfunded benefits paid	**(141)**	(145)
Re-measurements of net defined benefit obligation	**102**	(187)
At 31 March 2021	**1,626**	1,631

21. Called up share capital

	2021 £'000	2020 £'000
60,000,000 (2020: 60,000,000) Authorised ordinary shares £1 each	**60,000**	60,000
44,837,002 (2020: 44,837,002) Allotted and fully paid	**44,837**	44,837

22. Operating lease commitments and contingencies

At 31 March 2021 the company was in negotiation with LLAOL over the exercise of the Special Force Majeure clauses in the Concession Agreement. This matter was subsequently settled in November 2021 to extend the Concession Agreement from March 2031 to August 2032 and for LLAL to forego £45m of its Concession Fee in total during the current and subsequent years. However, additional payments could become due from LLAL to LLAOL should passenger number targets not be met in the future. As a result, LLAL have a contingent liability relating to the Passenger Adjusted Mechanism (PAM) as agreed with the airport operator as part of the total Special Force Majeure settlement. The contingent amount is dependent on the difference between the actual and target passenger outturn during the relevant years multiplied by an agreed rate per passenger.

At 31 March the company was committed to making the following total payments in respect of operating leases relating to land and buildings.

Notes to the financial statements for the year ended 31 March 2021 (continued)

	2021 £'000	2020 £'000
Amounts payable in less than one year	**2,270**	**3,180**
Amounts payable between two and five years	**8,944**	**9,082**
Amounts payable in excess of five years	**12,267**	**14,469**

23. Financial instruments

	2021 £'000	2020 £'000
Financial assets		
Cash	**413**	382
Financial assets that are debt instruments measures at amortised cost	**4,675**	12,850
Financial liabilities		
Financial liabilities measured at amortised cost	**356,078**	263,160

24. Related parties

There are no transactions with related parties not wholly owned by the group headed by Luton Borough Council. The company is exempt from disclosing other related party transactions as they are with other companies that are wholly owned by the group headed by Luton Borough Council.

25. Parent entity and ultimate controlling party

The immediate and ultimate parent undertaking and controlling party is Luton Borough Council. Luton Borough Council is the parent undertaking of the largest group of undertakings to consolidate these financial statements at 31 March 2021. The consolidated financial statements of Luton Borough Council are available from Town Hall, George Street, Luton, LU1 2BQ.

26. Subsequent events

Subsequent to the year end the company settled its dispute with LLAOL over the exercise of the Special Force Majeure clause in the Concession Agreement. In addition, it agreed a stabilisation plan with LBC which has resulted in LBC committing to provide up to £139m of additional finance as required to allow LLAL to meet its continuing obligations until it can recover from the impact of the Covid pandemic.

Notes to the financial statements
for the year ended 31 March 2021 (continued)

In April 2022 the Secretary of State for Levelling Up, Housing and Communities called in the LLAOL's planning application to increase capacity to 19 million passengers. The directors of the company consider that the planned expansion is both necessary and will bring substantial benefits to the local community and so are continuing to proceed with the DCO and supporting LLAOL's planning application. However, the calling in of the application may cause further delays and increases the risk that the DCO application will be unsuccessful, which may cause the DCO costs to be impaired in our year ending 31 March 2023, depending upon how the LLAOL planning application inquiry proceeds.